

4-20 Cast E-mail

Subject: Challenges of the Internet

Dear Fellow Cast Members:

In several past e-mails, I have written you about the tremendous opportunities represented by the Internet. Today, I offer a caveat. While the Internet continues to be present great potential to our company, we first must fully address the issue of piracy.

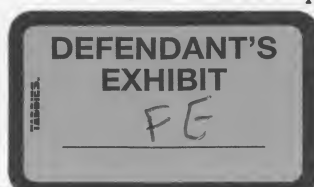
For some reason piracy has been on my mind. Maybe this is because I keep reading about the seriousness of it, or maybe it is because I know a digital copy of a film is a perfect copy. Or maybe it is because I know that the Internet is a worldwide delivery system honoring no borders. Or maybe it is because I just needed something to speak about at the Variety/Schroeder's entertainment industry conference in New York City 10 days ago. Probably it is a little of all the above.

By "piracy," I'm not talking about the comical characters sailing the high seas at the Pirates of the Caribbean. Rather, I'm talking about an underground of secretive and sequestered pirates of encryption – the hackers who shamelessly assert that anything they can get their hands on is legally theirs. These Internet pirates try to hide behind some contrived New Age arguments of the Internet, but all they are really doing is trying to make a case for Age Old thievery. When they hack a DVD and then distribute it on the web, it is no different than if someone puts a quarter in a newspaper machine and then takes out all the papers, which, of course, would be illegal and morally wrong.

The pirates will argue that this analogy is unfair, maintaining that all they're doing is cracking a digital code. But, by that standard, it would be justifiable to crack a bank code and transfer the funds from someone else's account into your own. There's just no way around it – theft is theft, whether it is enabled by a handgun or a computer keyboard.

Of course, piracy has been around a long time. Many of you probably remember a very funny "Seinfeld" episode (I suppose that's redundant – they all were funny, except maybe for the last one) in which Jerry becomes an "auteur" at making illegal copies of movies by videotaping them off the screen at the local multiplex. But, piracy is anything but funny ... especially now that, instead of making one bad quality videotape for sale on the street, these digital pirates could soon be making unlimited numbers of high quality copies available on the Internet.

One of the fallacies of the piracy debate is that it's really just a conflict of the pro-technology members of the "New Media" against the anti-technology members of the "Old Media." This characterization couldn't be more wrong. At Disney we embrace technology. And we always have. Throughout his career, Walt Disney recognized new technology as the friend of the storyteller. And, at Disney today, we are not only seizing the tremendous possibilities offered by technology in movies, as with "Dinosaur" and "Toy Story," but we are also active participants in the expansion of the Internet with our



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GO.com family of sites. We intend to continue to devote resources to the Internet ... but not if this requires surrendering the rights to things we own.

With this in mind, our company is undertaking a wide-ranging strategy to make the Internet truly safe for intellectual property. This strategy consists of five main elements.

First of all, we are turning to our representatives in Washington. Intellectual property rights are really no different from ordinary property rights. If you own something, you expect the government to respect your right to keep it from being stolen.

Secondly, we are working with governments around the world to respect our rights. We are actively involved in the Global Business Dialogue on Electronic Commerce, and our company is serving as chair of the Intellectual Property Work Group.

The third element is education. Working with The Motion Picture Association of America, we are advocating a more aggressive campaign to make people aware of intellectual property rights on the Internet. Most people are honest and want to do the right thing. But they can't do the right thing if they don't know that they're doing a wrong thing.

Fourth, we believe that the entertainment industry as a whole should take meaningful technological measures. Working in cooperation with technology companies, we need to develop innovative and flexible encryption devices that can stay one step ahead of the hackers.

Our fifth initiative is economic. History has shown that one of the best deterrents to pirated product is providing legitimate product at appropriate prices. In the music industry, we have already seen that people will gladly pay fair prices for legally-produced product even when it can be easily reproduced and unlawful copies can be easily acquired.

With every passing day, I believe we are getting closer to a time when the Internet will become another important revenue stream for the studios. This is what happened with Pay TV in the '70s and with Home Video in the '80s. If we act appropriately and aggressively in combating the pirates, then this could be the dawn of a new era of opportunity for companies that consistently create great entertainment ... and there's one in particular that comes to mind.

So that's what has been on my mind the last couple of weeks, that as well as the strong showing of our company, especially at our parks and TV networks. Life is good. Have a nice Easter/Passover Weekend.

Michael